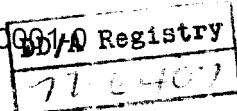
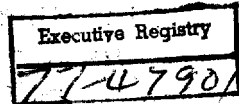


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12 DEC 1977



MEMORANDUM FOR: Director of Central Intelligence
VIA: Acting Deputy Director of Central Intelligence
FROM: Michael J. Malanick
Acting Deputy Director for Administration
SUBJECT: Agency Cost Reduction Program for FY 1977
REFERENCES: a. Memo dtd 28 Feb 75 to Deputy Directors
and Heads of Independent Offices fm DCI,
subject: Fighting Inflation and Reducing
Daily Operating Costs
b. Memo fm DDA to DCI dtd 8 Jun 77, subject:
Agency Cost Reduction Program--First
Half of FY 1977

1. (U) Action Requested: None; for information only.
The attachment to this memorandum summarizes the results of
the Agency's inflation fighting and cost reduction program
for FY 1977 and specifically outlines the cost reduction
activities for the second half of FY 1977. Cost reduction
activities for the first half of FY 1977 were reported in
reference b.

2. (U) Background: The Agency's cost reduction program
was inaugurated in November 1974 as a means of countering the
rising inflation of the early- and mid-1970's. Reference a
summarized the program in February 1975 and tasked the DDA
with collating and summarizing component reporting and periodi-
cally reporting to the Director. Savings reported for FY 1976
amounted to \$5.9 million in Category I, \$4.9 million in
Category II, and \$1.1 million in Category III.

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/s/ Michael J. Malanick

Michael J. Malanick

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Attachment:
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~~CONFIDENTIAL~~SUMMARY OF COST SAVINGS AND COST REDUCTIONFISCAL YEAR 19771. (U) COST SAVINGS

<u>Category</u>	<u>Amount in Millions</u>		
	<u>First Half FY 1977</u>	<u>Second Half FY 1977</u>	<u>Total FY 1977</u>
I. Saving Achieved for Current Fiscal Year (1977)	2.2	3.9	6.1
II. Annual Savings Anticipated for Future Years	5.0	8.7	13.7
III. One-Time Savings Achieved During FY 1977--Not Reported in Categories I or II	3.6	7.3	10.9

2. COST REDUCTION ACTIVITIES FOR THE SECOND HALF OF FY 1977

a. (C) Automatic data processing related cost savings are estimated at \$1.6 million for the second half of FY 1977, with recurring annual savings estimated at \$4.4 million. Major savings in this area resulted from the following activities: NPIC required that software development, testing, and implementation be conducted by ADP contractor personnel onsite vice the contractor's site, effecting 90 percent saving in overhead costs; ORD acquired a special processor that is expected to save 1000 hours of computer time, saving over \$2 million in the next 2 years; ORD also developed a new system of solving mathematical problems that resulted in a 13 percent savings in computer time. OSR and OCR also achieved significant savings by eliminating several data bases no longer needed and by expanding some current data bases to meet new applications, in lieu of purchasing new equipment. Other examples of economy measures taken in this area include OTR's switching to cassette tape storage instead of using permanent storage in the GE time-sharing system, and OL's use of computer output microfilm to replace the costlier hard copy computer printout. ODP computer systems

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were the target of similar cost savings measures. Changing from tape storage to disc storage resulted in a major reduction in elapsed processing time and overtime requirements for the payroll and human resources systems. A combination of eight retrieval and information systems that were no longer needed were eliminated. Several computer programs were developed or modified to significantly reduce clerical and analytical efforts and achieved substantial reduction in computer processing time.

b. (C) Saving of over \$250,000 with projected future savings of over \$400,000 were reported in the area of office management. Significant among these were negotiations with the Department of State to obtain pouching services at a reduced rate, Agency adoption of greater use of telepouches instead of cables (eliminating the processing of approximately 10,000 cables per month), and reorganization of the workforce in the CIA Operations Center to greatly reduce scheduled overtime. The use of a blanket travel order for all invitee travel by the Office of Personnel eliminated the preparation and processing of approximately 900 individual travel orders. The sharpening of recruitment requirements resulted in processing of 686 fewer applicant cases during the year. A \$40,000 savings in postage was realized by OL by delivering the FBIS Daily Report and Joint Research Publication Service reports via courier instead of the U.S. Postal Service; over \$25,000 was saved by revising supply stockroom techniques. CCS was able to eliminate a proprietary and all proprietary personnel and obtain the same services through the use of a part-time contract employee. OL, OTR, OC, and several offices in the DDS&T were able to effect considerable savings in training costs by using in-house personnel as instructors for training requirements, by consolidating courses, by conducting contractor training for new equipment at Headquarters facilities vice the contractor's site, and by establishing student participation in self-administered courses that were previously taught by registered instructors.

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c. (U/AIUO) Improved records management practices yielded \$297,000 in savings in the second half of FY 1977, with a potential savings of over \$400,000 in the coming years. Efforts in this direction include a substantial increase in the conversion of files and other hard copy information to microfiche, particularly in OCR, OTR, NPIC, and ISS. Many offices reported considerable savings in the purging, reorganization, and combination of files, as well as the removal of records from the data management systems, that were no longer of value or utility. ISS introduced a document status and locator system that significantly reduced the processing time for name traces and freed clerical and analytical personnel for other duties. OCR reported the utilization of two-sided mode Xerox for copying material, the use of Xerox microfilm in lieu of reader printout, and the ordering of documents by microfiche instead of hard copies. NPIC, OP, and

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OTR reported revisions, deletions, and combinations of forms to effect more efficient processing and retention of information. ORD developed a Hyper Slide system to permit same day production in high quality 35mm colored transparencies that resulted in over \$20,000 savings in the last 6 months. OSI, AF, EA, and several DDS&T offices were able to save over \$18,000 as a result of cancellation of subscriptions to publications and periodicals that were no longer required.

d. (U/AIUO) Some of the more significant savings reported for the second half of FY 1977 were the result of economy measures taken by various offices in item procurement practices. OL reported over \$600,000 in savings by meeting materiel requirements through the use of surplus equipment instead of direct purchase. OTR, for example, acquired [] at no cost from DOD to use in the [] Course, and [] obtained \$50,000 worth of tactical equipment through military channels. Other savings were effected by the purchase of aircraft parts prior to announced price increases, volume purchasing of equipment, and transfer of equipment between offices rather than purchasing it from commercial sources. NPIC, for example, obtained a minicomputer from OCI and OCR arranged for the transfer of eight magnetic tape selectric typewriters to fill requirements in other Directorates instead of direct purchase.

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e. (U/AIUO) Savings in the area of equipment usage and maintenance were estimated at \$170,000 for the second half of FY 1977, and over \$400,000 in future years. OL, OPRA, and NPIC realized significant savings through the cancellation of rental contracts on IBM and Xerox equipment that was either no longer required or was deemed more economical if purchased. ISS saved over \$7,000 per year by hiring its own technicians to repair over 1,000 micrographic units in lieu of a vendor contract. OC and OL also reported considerable savings by the use of in-house personnel for repair and maintenance work. OC rewired several reproduction machines to provide for a more efficient operation, while OP and NPIC relocated several copying machines to provide for shared use by other offices. OL and OC disposed of a number of automobiles, forklifts, and other automotive equipment that were no longer required and also provided for redistribution of excess equipment to the U.S. Forces at no cost to the U.S. Government.

f. (C) Substantial savings were reported in many other areas that do not fall into any of the above categories. For example, [] and FR Divisions reported savings of over \$6,000 in the last 6 months, and over \$50,000 in future years, with the use of the WATS line for domestic bases. NPIC and OC realized over \$70,000 this year with the elimination of leased circuits upon conversion to satellite communications links. EA Division

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estimates by closing one of their bases and switching to 3- vice 2-year tours, they have saved \$184,000 this year and estimate over \$800,000 savings in ensuing years. [] reported that making their aircraft available to other Agency components for use, the Agency has saved over \$200,000 in the last 6 months in commercial and military air fares. Additionally, they have transferred or loaned various types of sophisticated communications and photographic equipment to offices throughout the Agency, including an aerial camera and test equipment to NPIC valued at \$500,000. DDS&T components reported savings of over \$800,000 in one-time costs through various types of contract negotiations. Significant among these was the decision to undertake a specialized modeling project on an in-house versus an outside contract, with a net savings of \$450,000. The Office of Logistics realized a savings of \$288,000 by using commercial airlines in lieu of military aircraft for shipment of sophisticated communications equipment to an overseas location, and an additional \$124,000 savings by opening up a sea shipment route to India to replace the air route normally used.

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e. (U) The summaries listed above reflect only the more significant areas of saving and do not do justice to the many individuals who contribute to this program. A complete list of the savings reported would be too numerous and diversified to report here; however, the individual reports submitted by each office are available for review upon request. Possibly more significant than all of the entries listed under the three categories above is the evident awareness by Agency personnel at all levels of the importance of reducing daily operating costs within the Agency.

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Remarks: Hank: Your note appended to the most recent semi-annual cost reduction report questioned whether such reports should come from the Comptroller rather than the DDA. This report had its genesis in the DCI's Financial Guidance Letter to the DDA for FY 1975 which tasked the DDA with developing a multi-faceted program to reduce the cost of day-to-day Agency operations in areas most seriously affected by inflation. Such a program was developed and included, inter alia, direction from the DCI that all directorates should continue to focus attention on ways in which costs could be reduced. Periodic reports were to be submitted on specific actions.			
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FROM: NAME, ADDRESS AND PHONE NO.			DATE
/s/ James H. Taylor James H. Taylor, Comptroller			15 JUN 1977
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taken and results achieved. Initially, the reports were made quarterly and currently are prepared and submitted semi-annually.

In my view, continuing attention to areas in which cost growth can be restrained and to areas in which current costs can be reduced is an important adjunct to our basic management process. While the Comptroller could take on the monitoring and reporting of efforts in this area, I feel that this can be and is being satisfactorily handled by the DDA. Therefore, I recommend that we maintain the status quo and have the DDA continue to deal with this as at present.

JHT

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